

ORIGINAL

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

Arizona Corporation Commission

KRISTIN K. MAYES – Chairman

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GARY PIERCE

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PAUL NEWMAN

SANDRA D. KENNEDY

BOB STUMP

DOCKETED BY

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IN THE MATTER OF THE NOTICE OF INTENT)
OF MCLEODUSA TELECOMMUNICATIONS)
SERVICES, INC. D/B/A PAETEC BUSINESS)
SERVICES PURSUANT TO A.A.C. R14-2-803)
REGARDING A PRO FORMA)
INTRACORPORATE REORGANIZATION, OR IN)
THE ALTERNATIVE, APPLICATION FOR A)
LIMITED WAIVER OF A.A.C. R14-2-803.)

DOCKET NO. T-03267A-09-0536

**NOTICE OF INTENT AND
APPLICATION
(Expedited Approval Requested)**

I. INTRODUCTION.

McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services ("PAETEC Business" or "Applicant"), by and through its undersigned counsel, hereby respectfully submits this Notice of Intent pursuant to A.A.C. R14-2-803 and application pursuant to A.A.C. R14-2-806 seeking an order authorizing to participate in a *pro forma* intracorporate reorganization as described more fully herein or granting a limited waiver of A.A.C. R14-2-803 with respect to the reorganization.

Applicant provides notice, and to the extent necessary, seeks approval to complete the reorganization by the end of the year due to significant benefits for the company. Applicant requests expedited review and approval of this transaction without a hearing under A.A.C. R14-2-803(B). Alternatively, pursuant to A.A.C. R14-2-806, Applicant requests a limited waiver of A.A.C. R14-2-803. To the extent that affirmative approval is required, should the order granting

1 approval be issued after December 31, 2009, Applicant requests that such approval be granted
2 *nunc pro tunc* to that date.

3 As further detailed below, Applicant will participate in a *pro forma* intracorporate
4 reorganization. A schematic depiction of the corporate reorganization is set forth in Exhibits A and
5 B. The reorganization will not change the ultimate ownership or control of Applicant's operations,
6 or its corporate directors, officers, or managers, or its service offerings and pricing. Moreover, as
7 part of the reorganization and to maximize the tax benefits of the intracorporate reorganization,
8 Applicant intends to change its corporate form by converting under Iowa law to a limited liability
9 company – under controlling Iowa law the converted entity is deemed to be the same entity as the
10 converting entity. There is no legal transfer of assets from one distinct legal entity to another legal
11 entity, including the Certificate of Convenience and Necessity (“CC&N”) under this conversion.
12 After the conversion, Applicant will operate under the name McLeodUSA Telecommunications
13 Services, LLC d/b/a PAETEC Business Services. In all respects, the change in corporate form and
14 *pro forma* reorganization will be transparent to the public.

15 **II. DESCRIPTION OF THE PARTIES.**

16 **A. McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business**
17 **Services.**

18 PAETEC Business is an Iowa corporation with principal offices located at One Martha's
19 Way, Hiawatha, Iowa 52233.¹ PAETEC Business is an indirect wholly-owned subsidiary of
20 PAETEC Holding Corp. (“PAETEC Holding”).² PAETEC Business provides integrated
21 communications services, including local services, primarily in 20 Midwest, Southwest,
22 Northwest, and Rocky Mountain states.³ PAETEC Business is authorized to provide resold and/or
23 facilities-based telecommunications services in 48 states and the District of Columbia pursuant to
24 certification, registration or tariff requirements, or on a deregulated basis.⁴ Additionally, PAETEC

25 _____
26 ¹ See Exhibit D, Affidavit of William A. Haas (“Haas Aff”) ¶ 3.

27 ² *Id.*

³ *Id.*

⁴ *Id.*

Business is authorized by the Federal Communications Commission to provide international and domestic interstate telecommunications services as a nondominant carrier and fixed, broadband point-to-multipoint wireless service.⁵ In Arizona, PAETEC Business is authorized to provide resold and facilities-based local exchange and exchange access services pursuant to Decision No. 62627, granted on June 9, 2000.⁶ PAETEC Business is also authorized to resold interexchange telecommunications services pursuant to Decision No. 61001, granted on July 16, 1998.⁷ In its 2008 Annual Report filed with the Commission, Applicant generated more than \$1 million of Arizona jurisdictional revenue. Applicant therefore is a Class A investor-owned public service corporation subject to the Arizona Corporation Commission's ("Commission") Public Utility Holding Companies and Affiliated Interest Rules, A.A.C. R14-801 *et seq.*

B. PAETEC Holding Corp.

PAETEC Holding⁸ is a publicly traded Delaware corporation (NASDAQ GS: PAET) with principal offices located at One PAETEC Plaza, 600 Willow Brook Office Park, Fairport, New York 14450.⁹ Through its regulated operating subsidiaries, PAETEC Holding has a presence in 83 of the nation's top 100 MSAs, delivering communications solutions to business customers in 48 states and the District of Columbia.¹⁰ In Arizona, PAETEC Holding provides regulated communications services through two wholly owned subsidiaries: PAETEC Business, and PAETEC Communications, Inc. ("PCI").¹¹ Additional information regarding PAETEC Holding, including its most recent SEC Form 10-Q, as filed with the Securities and Exchange Commission, is available at www.paetec.com.

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

⁸ As used in this Application, "PAETEC Holding" refers to PAETEC Holding Corp. and, where applicable, its predecessor, PAETEC Corp.

⁹ Haas Aff. ¶ 4.

¹⁰ *Id.*

¹¹ Haas Aff. ¶ 4. PCI is authorized to provide resold intrastate interexchange services in Arizona pursuant to a Certificate of Convenience and Necessity granted in Decision No. 62458. *Id.* ¶ 5. PCI does not join in this Application because it has no physical presence in Arizona and, moreover, is not a Class A investor-owned utility subject to A.A.C. R14-2-801 *et seq.*

1 **C. Designated Contacts.**

2 Questions, correspondence or other communications concerning this Application should be
3 directed to:

4 Michael W. Patten
5 Roshka DeWulf & Patten, PLC
6 One Arizona Center
7 400 East Van Buren, Suite 800
8 Phoenix, Arizona 85004-3906
9 Tel: (602) 256-6100
10 Fax: (602) 256-6800
11 Email: MPatten@rdp-law.com

12 and

13 Tony S. Lee
14 Venable LLP
15 575 7th Street, N.W.
16 Washington, D.C. 20036
17 Tel: (202) 344-4000
18 Fax: (202) 344-8300
19 Email: TSLee@Venable.com

20 with a copy to the following designated representative of Applicant:

21 William A. Haas
22 Vice President of Public Policy & Regulatory
23 PAETEC Holding Corp.
24 One Martha's Way,
25 Hiawatha, Iowa 52233
26 Email: William.Haas@paetec.com

27 **III. DESCRIPTION OF TRANSACTION.**

A. *Pro Forma* Intracorporate Reorganization.

 PAETEC Business will be included as part of a *pro forma* intracorporate reorganization of
entities that all *currently have* PAETEC Holding as their ultimate parent.¹² There will be no
combination of unaffiliated entities. Currently, Applicant is held by PAETEC Holding through the
McLeodUSA Inc. and McLeodUSA Holdings, Inc. subsidiaries.¹³ A diagram of the pre-

¹² Haas Aff. ¶ 7.

¹³ *Id.*

1 reorganization structure of the company showing those entities are attached as Exhibit A.
2 Applicant intends to execute a *pro forma* corporate reorganization whereby PAETEC Business
3 will become an indirect wholly-owned subsidiary of PAETEC Holding under the PAETEC Corp.
4 and PAETEC Communications, Inc. subsidiaries, rather than through its current intervening parent
5 companies.¹⁴ McLeodUSA Inc. will be collapsed into PAETEC Holding Corp., and McLeodUSA
6 Holdings, Inc.'s stock will be contributed to PAETEC Communications, Inc.¹⁵ There will be no
7 changes whatsoever in the corporate form, name, or manner in which PAETEC Communications,
8 Inc. is held or operated.¹⁶ A diagram of the post-reorganization structure of the company is
9 attached as Exhibit B.

10 The *pro forma* reorganization will not result in a transfer of control of PAETEC Business
11 because its ultimate parent, PAETEC Holding, will remain the same.¹⁷ Furthermore, the day-to-
12 day operations of the company will continue to be managed by the same personnel, and the
13 transaction will not affect Applicant's current rates or services.¹⁸ The transaction will enhance the
14 overall operational efficiency and competitive position of the company because it expects to gain
15 significant benefits as a result of the *pro forma* reorganization,¹⁹ which will ultimately inure to the
16 benefit of the companies' subscribers. Consequently, the transaction is consistent with the public
17 interest, and will promote competition among telecommunications carriers in the state.

18 **B. Rule 803 Information.**

19 The proposed transaction constitutes a reorganization under the Commission's Public
20 Utility Holding Companies and Affiliated Interests Rules. The proposed *pro forma* reorganization
21 will not impair the financial status of PAETEC Business or otherwise prevent Applicant from
22 attracting capital at fair and reasonable terms, nor will it impair its ability to provide safe,
23

24 _____
25 ¹⁴ *Id.*

26 ¹⁵ *Id.*

27 ¹⁶ *Id.*

¹⁷ Haas Aff. ¶ 8.

¹⁸ *Id.*

¹⁹ Haas Aff. ¶ 9.

1 reasonable and adequate service. Although Applicant requests a waiver of A.A.C. R14-2-803, the
2 information requested in the rule is provided to expedite the Commission's review.:

3 1. Names and Business Address of the Proposed Officers and Directors of the Holding
4 Company.

5 Attached as Exhibit C is a list of PAETEC Holding's officers and directors. PAETEC
6 Holding's business address is One PAETEC Plaza, 600 Willow Brook Office Park, Fairport, New
7 York 14450. Those officers and directors will remain the same before and after the *pro forma*
8 reorganization.

9 2. The Business Purposes for Establishing or Reorganizing the Holding Company.

10 Please refer to the Public Interest Section below.

11 3. The Proposed Method of Financing the Holding Company and the Resultant
12 Capital Structure.

13 PAETEC Holding is a publicly traded company with an established capital structure and
14 significant financial resources.²⁰ The methods it uses for financing will not change as a result of
15 this transaction.²¹ The transaction described above will merely result in PAETEC Business
16 becoming a subsidiary underneath the PAETEC Corp. "tree" of the corporate structure,²² as shown
17 in Exhibits A and B. PAETEC Holding will not issue additional equity in the company in
18 connection with this transaction.²³

19 4. The Resultant Effect on the Capital Structure of the Public Utility.

20 As a result of the *pro forma* reorganization, PAETEC Business will continue to have the
21 same ultimate parent, PAETEC Holding.²⁴ There will be no change whatsoever in the ultimate
22 ownership of PAETEC Holding and PAETEC Business, or their corporate directors, officers, or
23

24
25 ²⁰ Haas Aff. ¶ 9.

26 ²¹ *Id.*

27 ²² *Id.*

²³ *Id.*

²⁴ Haas Aff. ¶ 8.

managers, or service offerings and pricing.²⁵ The capital structure of PAETEC Business and its Parent will be unaffected by the transaction.²⁶

5. An Organization Chart of the Holding Company that Identifies all Affiliates and their Relationships within the Holding Company's Subsidiaries.

Please see attached pre-transaction and post-transaction charts at Exhibits A and B.

6. The Proposed Method for Allocating Federal and State Income Taxes to the Holding Company's Subsidiaries.

Federal and State income tax allocations among PAETEC Holding and its subsidiaries are consistent with the provisions of Treasury Regulation Sections 1.1552-1(a).²⁷ Other than the tax benefits that will be realized from the *pro forma* reorganization, PAETEC Holding's approach to allocating tax liability will not change materially as a result of this transaction.²⁸

7. The Anticipated Changes in the Utility's Cost of Service and the Cost of Capital Attributable to the Reorganization.

The *pro forma* reorganization will not have any adverse impact on the cost of services provided by PAETEC Holding or PAETEC Business.²⁹ The transaction should improve all of the operating subsidiaries' access to capital at favorable rates through their common parent, PAETEC Holding.³⁰

8. A Description of Diversification Plans of Affiliates of the Holding Company.

There are no current plans for diversification or business activities unrelated to operations of the current subsidiaries.³¹

9. Copies of all Relevant Documents and Filings with the United States Securities and Exchange Commission and other Federal and State Agencies.

PAETEC will provide such documents upon request.

²⁵ *Id.*

²⁶ *Id.*

²⁷ Haas Aff. ¶ 10.

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.*

10. An Explanation of the Manner in which the Utility can assure that Adequate Capital will be Available for the Construction of Necessary New Utility Plant and for Improvements in Existing Utility Plant.

PAETEC Business should be able to attract capital on terms no less favorable than prior to the *pro forma* reorganization.³² Adequate, and probably increased, capital will be available for growth and development in Arizona.³³

C. Conversion of Applicant from a Corporation to a Limited Liability Company under Iowa Law

In connection with the *pro forma* reorganization, PAETEC Business intends to undertake a change in corporate form whereby PAETEC Business will be converted from an Iowa business corporation to an Iowa limited liability company.³⁴ As explained in detail below, under controlling Iowa law, the converted LLC *is for all purposes the same entity as existed before the conversion.*³⁵

The conversion will not involve the merger of Applicant with any other entity.³⁶ Rather, the conversion will be accomplished simply through the filing of Articles of Organization Including Articles of Conversion, or similar documents, with the Iowa secretary of state.³⁷ This is not unlike changing the name of a corporation under Arizona by filing revised Articles of Incorporation – the entity remains legally the same. The purpose of filing such articles is to form a limited liability company through the conversion of another business entity.³⁸ The filing of Articles of Organization Including Articles of Conversion or similar documents will convert PAETEC Business to a limited liability company by operation of law.³⁹ Following the conversion, the converted PAETEC Business entity will continue to be an indirect, wholly-owned subsidiary of PAETEC Holding Corp.⁴⁰ “McLeodUSA Telecommunications Services, Inc.” will change its name to “McLeodUSA

³² *Id.*

³³ *Id.*

³⁴ Haas Aff. ¶ 6.

³⁵ “An organization that has been converted pursuant to this article is for all purposes the same entity that existed before the conversion.” Iowa Code § 489.1009(1).

³⁶ *Id.*

³⁷ *Id.*

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ *Id.*

1 Telecommunications Services, LLC".⁴¹ It will also continue to operate as d/b/a PAETEC Business
2 Services.⁴²

3 Under the law governing PAETEC Business's formation and existence, when the conversion
4 takes effect, Applicant will continue in existence as the resulting limited liability company, with all
5 of the assets, liabilities, interests, rights, and obligations of the converting company. Specifically,
6 under Iowa law, an entity that converts to a limited liability company is recognized as the same
7 entity.⁴³ When the conversion takes effect, the cessation of the existence of the converting business
8 entity in its prior form of organization does not constitute a dissolution or termination of the
9 converting business entity.⁴⁴ The converting business entity ceases its prior form of organization and
10 continues in existence as the resulting limited liability company.⁴⁵ As a result, there is no legal
11 transfer of assets or a CC&N and no Commission approval is required.

12 The assets, liabilities, interests, rights, and obligations of PAETEC Business will remain
13 vested in the converted entity.⁴⁶ Applicant will simply continue in existence in the form of a limited
14 liability company. Because the converted entity is the same entity as the converting entity under
15 Iowa law, and no transfer of assets or liabilities will have occurred, Applicant respectfully submits
16

17
18 ⁴¹ *Id.*

19 ⁴² *Id.*

20 ⁴³ "An organization that has been converted pursuant to this article is for all purposes the same entity that existed
before the conversion." Iowa Code § 489.1009(1).

21 ⁴⁴ "Except as otherwise agreed, the conversion does not dissolve a converting limited liability company for the
purposes of article 7." Iowa Code § 489.1009(2)(f).

22 ⁴⁵ When a conversion takes effect all of the following apply:

23 a. All property owned by the converting organization remains vested in the converted organization.

24 b. All debts, obligations, or other liabilities of the converting organization continue as debts, obligations, or other
liabilities of the converted organization.

25 c. An action or proceeding pending by or against the converting organization may be continued as if the
conversion had not occurred.

26 d. Except as prohibited by law other than this chapter, all of the rights, privileges, immunities, powers, and
purposes of the converting organization remain vested in the converted organization.

27 e. Except as otherwise provided in the plan of conversion, the terms and conditions of the plan of conversion take
effect.

f. Except as otherwise agreed, the conversion does not dissolve a converting limited liability company for the
purposes of article 7. Iowa Code § 489.1009(2).

⁴⁶ Haas Aff. ¶ 6.; Iowa Code § 489.1009(2).

1 that regulatory approval is not required. This situation under Iowa is effectively similar to the change
2 in name of a corporation under Arizona law – the entity before and after is legally the same.

3 **V. PUBLIC INTEREST CONSIDERATIONS – BENEFITS OF CONVERSION AND**
4 **REORGANIZATION**

5 Grant of this Application will serve the public interest of the State of Arizona. The
6 structure changes are anticipated to produce the following benefits:⁴⁷

- 7 • Result in more than \$800k in annual income tax savings by utilizing forecasted
8 losses of certain subsidiaries against the forecasted profits of other subsidiaries;
- 9 • Result in substantial administrative efficiencies to be achieved in the form of fewer
10 income tax filings;
- 11 • Mitigate current risks associated with limitations imposed on the ability to utilize
12 net operating losses (i.e., Section 382 IRS loss limitations imposed on companies
13 that have incurred an ownership change); and
- 14 • Mitigate current transfer pricing risks associated with the accuracy of reporting
15 inter-company transactions (e.g., meeting the arms length pricing standard for inter-
16 company services incurred between affiliates – for example, the routing of an
17 affiliate's calls over another affiliate's switch).

18 The savings and efficiencies that are anticipated as a result of the conversion and *pro forma*
19 reorganization will enable PAETEC Holding to strengthen its financial condition and streamline
20 its operations. That, in turn, will create opportunities to enhance the competitive position of its
21 Arizona operating subsidiaries, including PAETEC Business, in the Arizona telecommunications
22 marketplace, all of which ultimately will inure to the benefit of their respective Arizona customers.

23 Finally, grant of this Application would not be contrary to the public interest because no
24 legal transfer of PAETEC Business' CC&N,⁴⁸ assets, or customers will occur as a result of
25 PAETEC Business's participation in the *pro forma* reorganization.⁴⁹ PAETEC Business will
26 continue to provide service to its Arizona customers pursuant to its existing Certificate with no
27

⁴⁷ Haas Aff. ¶ 11.

⁴⁸ As noted above, the converted company is the same entity, with the same rights and liabilities as the converting entity, and does not cease to exist.

⁴⁹ Haas Aff. ¶ 8.

1 change in the rates or terms and conditions of service as currently provided.⁵⁰ These
2 arrangements, moreover, will not affect the \$600,000 performance bond posted by PAETEC
3 Business and currently in place, the purpose of which is to protect those Arizona customers whose
4 have prepaid for service or given PAETEC Business deposits.

5 **VI. CONCLUSION**


6 For foregoing reasons, PAETEC Business submits that the public interest, convenience,
7 and necessity would be furthered by grant of this Application authorizing PAETEC Business's
8 participation in the *pro forma* reorganization without a hearing. Alternatively, Applicant requests
9 that the Commission grant Applicant a limited waiver of A.A.C. R14-2-803 for the proposed
10 reorganization.

11 Applicant further requests expedited review and approval of either the proposed
12 reorganization or of the waiver of A.A.C. R14-2-803 without a hearing no later than December 31,
13 2009. In order to facilitate expedited approval, Applicant hereby waives the ten-day exception
14 period regarding a proposed order.

15 Finally, should the order granting approval be issued after December 31, 2009, Applicant
16 requests that such approval be granted *nunc pro tunc* to that date.

17 RESPECTFULLY SUBMITTED this 20th day of November 2009.

18 ROSHKA DEWULF & PATTEN, PLC

19
20 By 
21 Michael W. Patten
22 One Arizona Center
23 400 East Van Buren Street, Suite 800
24 Phoenix, Arizona 85004

23 Tony S. Lee
24 Venable LLP
25 575 7th Street, N.W.
26 Washington, D.C. 20036

26 Of Counsel

27 ⁵⁰ *Id.*

ROSHKA DEWULF & PATTEN, PLC
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

1 Original and 13 copies of the foregoing
2 filed this 20 day of November 2009 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 Copy of the foregoing hand-delivered/mailed
8 this 20 day of November 2009 to:

9 Lyn Farmer, Esq.
10 Chief Administrative Law Judge
11 Hearing Division
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

15 Janice Alward
16 Chief Counsel, Legal Division
17 Arizona Corporation Commission
18 1200 West Washington
19 Phoenix, Arizona 85007

20 Steve Olea
21 Director, Utilities Division
22 Arizona Corporation Commission
23 1200 West Washington
24 Phoenix, Arizona 85007

25 By Mary Appolito
26
27

EXHIBIT A: Pre-Transaction Corporation Structure

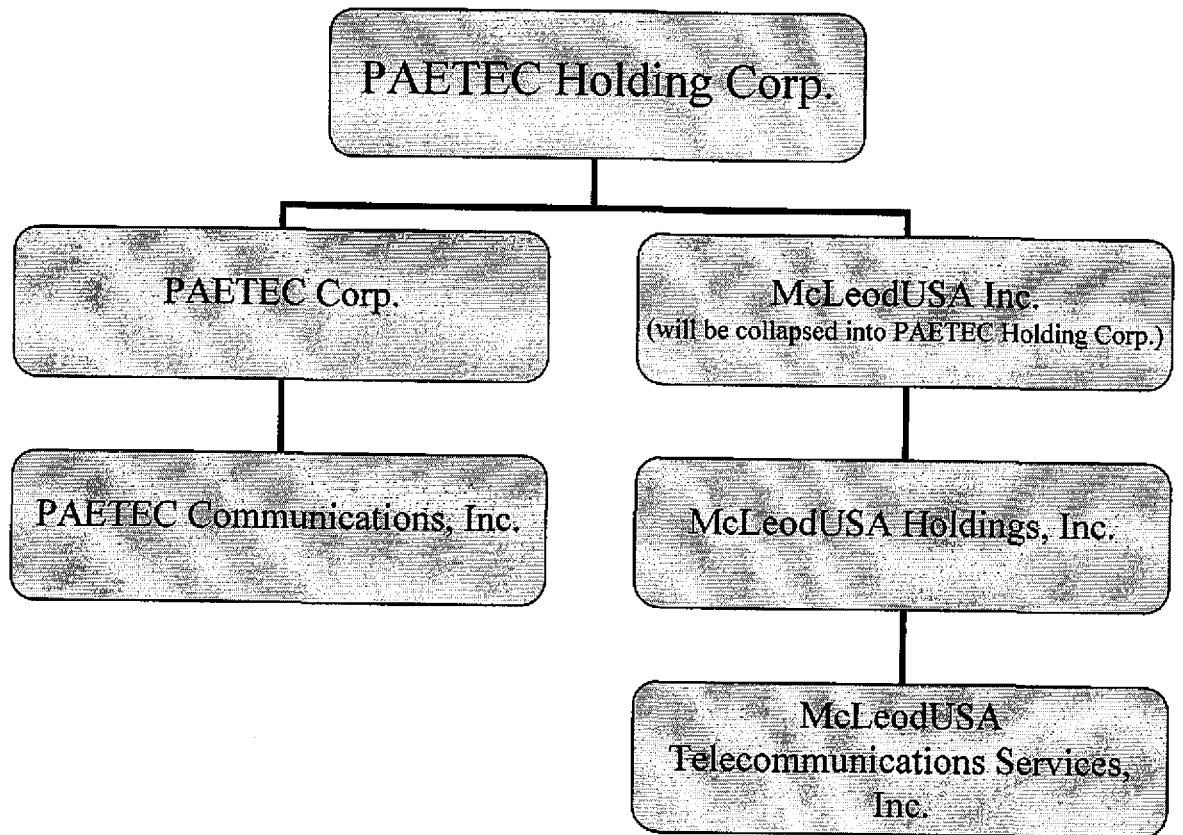
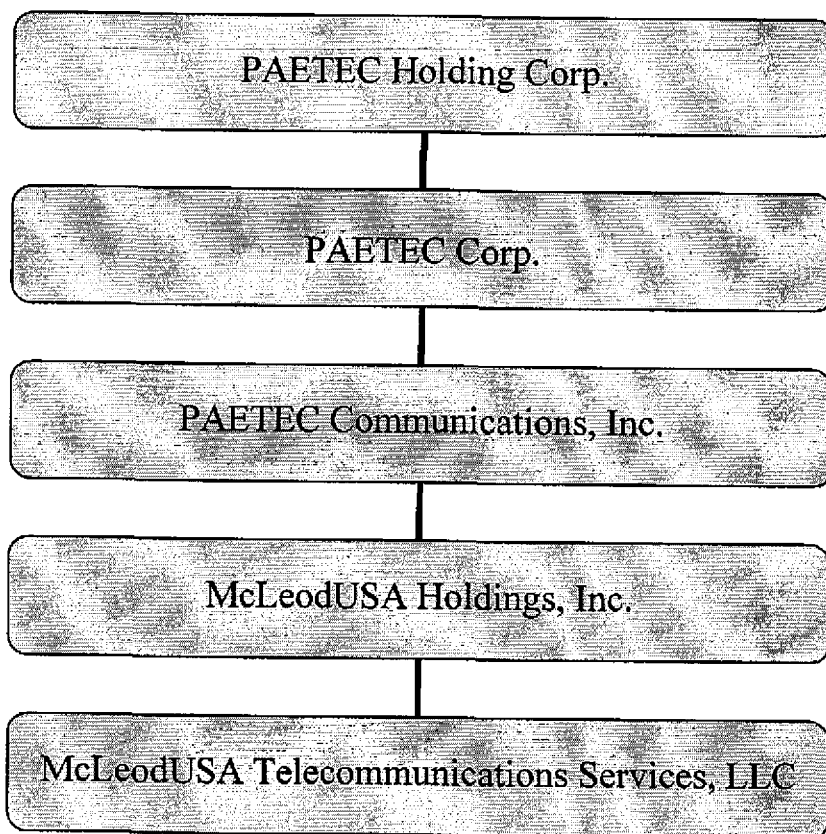


EXHIBIT B: Post-Transaction Corporation Structure



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TELEPHONE NO 602-256-6100
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EXHIBIT C: Officers and Directors of PAETEC Holding Corp.

DIRECTORS:

Arunas A. Chesonis
Richard T. Aab
Shelley Diamond
H. Russell Frisby, Jr.
Tansukh V. Ganatra
Michael C. MacDonald
William R. McDermott
Alex Stadler
Keith M. Wilson
Mark Zupan

OFFICERS:

Arunas A. Chesonis	Chairman, President and Chief Executive Officer
Edward J. Butler, Jr.	Executive Vice President and Chief Operating Officer
Keith M. Wilson	Executive Vice President and Chief Financial Officer, Treasurer
Algimantas K. Chesonis	Senior Vice President, Chief Accounting Officer and Controller
Mary K. O'Connell	Senior Vice President, General Counsel and Secretary
Laurie Zaucha	Senior Vice President, Human Resources
Robert D. Moore, Jr.	Senior Vice President and Chief Information Officer
William A. Haas	Vice President, Regulatory and Public Policy, Assistant Secretary
John B. Messenger	Assistant Secretary
S. Shane Turley	Assistant Secretary
Peter Connoy	Assistant Treasurer

EXHIBIT D

Affidavit of William A. Haas in Support of Application

ROSHKA DeWULF & PATTEN, PLC
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**BEFORE THE
ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE NOTICE OF)
INTENT, OR IN THE ALTERNATIVE,)
APPLICATION OF MCLEODUSA)
TELECOMMUNICATIONS SERVICES,)
INC. D/B/A PAETEC BUSINESS SERVICES)
FOR APPROVAL, TO TRANSFER ITS)
CERTIFICATE OF CONVENIENCE AND)
NECESSITY TO MCLEODUSA)
TELECOMMUNICATIONS SERVICES,)
LLC, TO ENGAGE IN A PRO FORMA)
CORPORATE REORGANIZATION, AND)
FOR A WAIVER OF A.A.C. R14-2-803, R14-)
2-804, AND R14-2-805.)

Docket No. _____

AFFIDAVIT

STATE OF IOWA)
) SS:
COUNTY OF LINN)

William A. Haas, being of full age and duly sworn according to law, does hereby depose and state as follows:

1. I am Vice President, Regulatory and Public Policy, of PAETEC Holding Corp., the ultimate corporate parent of McLeodUSA Telecommunications Services, Inc., d/b/a PAETEC Business Systems ("PAETEC Business" or "Applicant"), the applicant in the above-captioned matter.

2. I am familiar with the nature and contents of the above referenced application. I make this affidavit in support of PAETEC Business's notice, or in the alternative, application to undertake a change in corporate form to convert to a limited liability company and transfer its Certificate of Convenience and Necessity to the converted company, and to participate in a *pro forma* corporate reorganization.

3. PAETEC Business is an Iowa corporation with principal offices located at One Martha's Way, Hiawatha, Iowa 52233. PAETEC Business is an indirect wholly-owned subsidiary of PAETEC Holding Corp. ("PAETEC Holding"). PAETEC Business provides integrated communications services, including local services, primarily in 20 Midwest, Southwest, Northwest, and Rocky Mountain states. PAETEC Business is authorized to provide resold and/or facilities-based telecommunications services in 48 states and the District of Columbia pursuant to certification, registration or tariff requirements, or on a deregulated basis. Additionally, PAETEC Business is authorized by the Federal Communications Commission to provide international and domestic interstate telecommunications services as a nondominant carrier and fixed, broadband point-to-multipoint wireless service. In Arizona, PAETEC Business is authorized to provide resold and facilities-based local exchange and exchange access services pursuant to Decision No. 62627, granted on June 9, 2000. PAETEC Business is also authorized to resold interexchange telecommunications services pursuant to Decision No. 61001, granted on July 16, 1998.

4. PAETEC Holding is a publicly traded Delaware corporation (NASDAQ GS: PAET) with principal offices located at One PAETEC Plaza, 600 Willow Brook Office Park, Fairport, New York 14450. Through its regulated operating subsidiaries, PAETEC Holding has a presence in 83 of the nation's top 100 MSAs, delivering communications solutions to business customers in 48 states and the District of Columbia. In Arizona, PAETEC Holding provides regulated communications services through two wholly owned subsidiaries: PAETEC Business, and PAETEC Communications, Inc ("PCI").

5. PCI is authorized to provide resold intrastate interexchange services in Arizona pursuant to a Certificate of Convenience and Necessity granted in Decision No. 62458.

6. PAETEC Business intends to undertake a change in corporate form whereby PAETEC Business will be converted from an Iowa business corporation to an Iowa limited liability company. The conversion will not involve the merger of Applicant with any other entity. Rather, the conversion will be accomplished through the filing of Articles of Organization Including Articles of Conversion, or similar documents, with the Iowa secretary of state. The purpose of filing such articles is to form a limited liability company through the conversion of another business entity. The filing of Articles of Organization Including Articles of Conversion or similar documents will convert PAETEC Business to a limited liability company by operation of law. Following the conversion, the converted PAETEC Business entity will continue to be an indirect, wholly-owned subsidiary of PAETEC Holding Corp. "McLeodUSA Telecommunications Services, Inc." will change its name to "McLeodUSA Telecommunications Services, LLC". It will also continue to operate as d/b/a PAETEC Business Services. Applicant will continue in existence as the resulting limited liability company, with all of the assets, liabilities, interests, rights, and obligations of the converting company.

7. In addition to the change in corporate form, the company will undertake a *pro forma* corporate reorganization. Currently, Applicant is held by PAETEC Holding through the McLeodUSA Inc. and McLeodUSA Holdings, Inc. subsidiaries. Applicant intends to execute a *pro forma* corporate reorganization whereby PAETEC Business will become an indirect wholly-owned subsidiary of PAETEC Holding under the PAETEC Corp. and PAETEC Communications, Inc. subsidiaries, rather than through its current intervening parent companies. McLeodUSA Inc. will be collapsed into PAETEC Holding Corp., and McLeodUSA Holdings, Inc.'s stock will be contributed to PAETEC Communications, Inc. There will be no changes

whatsoever in the corporate form, name, or manner in which PAETEC Communications, Inc. is held or operated.

8. The *pro forma* reorganization will not result in a transfer of control of PAETEC Business because its ultimate parent, PAETEC Holding, will remain the same. There will be no change whatsoever in the ultimate ownership of PAETEC Holding and PAETEC Business, or their corporate directors, officers, or managers, or service offerings and pricing. Furthermore, the day-to-day operations of the company will continue to be managed by the same personnel, and the transaction will not affect Applicant's current rates or services. There will also be no transfer of assets or customers as a result of the transaction.


9. PAETEC Holding is a publicly traded company with an established capital structure and significant financial resources. The methods PAETEC Holding uses for financing will not change as a result of this transaction. The transaction described above will merely result in PAETEC Business becoming a subsidiary underneath the PAETEC Corp. "tree" of the corporate structure. PAETEC Holding will not issue additional equity in the company in connection with this transaction.

10. Federal and State income tax allocations among PAETEC Holding and its subsidiaries are consistent with the provisions of Treasury Regulation Sections 1.1552-1(a). Other than the tax benefits that will be realized from the *pro forma* reorganization, PAETEC Holding's approach to allocating tax liability will not change materially as a result of this transaction. The *pro forma* reorganization will not have any adverse impact on the cost of services provided by PAETEC Holding or PAETEC Business. The transaction should improve all of the operating subsidiaries' access to capital at favorable rates through their common parent,

PAETEC Holding. There are no current plans for diversification or business activities unrelated to operations of the current subsidiaries.

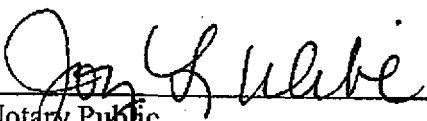
11. The transaction will enhance the overall operational efficiency and competitive position of the company because it expects to gain significant benefits as a result of the *pro forma* reorganization. The structure changes are anticipated to produce the following benefits: Result in more than \$800k in annual income tax savings by utilizing forecasted losses of certain subsidiaries against the forecasted profits of other subsidiaries; result in substantial administrative efficiencies to be achieved in the form of fewer income tax filings; mitigate current risks associated with limitations imposed on the ability to utilize net operating losses (i.e., Section 382 IRS loss limitations imposed on companies that have incurred an ownership change); and mitigate current transfer pricing risks associated with the accuracy of reporting inter-company transactions (e.g., meeting the arms length pricing standard for inter-company services incurred between affiliates – for example, the routing of an affiliate's calls over another affiliate's switch).

Further affiant sayeth not.



William A. Haas
Vice President, Regulatory & Public Policy
PAETEC Holding Corp.

Sworn and subscribed to before me this
20 day of November, 2009.



Notary Public

